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STATE FOR EUR/CARC AND EEB/ESC/IEC

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TAGS: [EPET](#) [ENRG](#) [PREL](#) [GG](#)

SUBJECT: GEORGIA CONCERNED ABOUT REPORTS OF GAZPROM
INTEREST IN BUYING AZERI GAS

Classified By: Ambassador John F. Tefft, reason 1.4(b) and (d).

¶1. (C) Georgia's Minister of Energy, Aleksandr Khetaguri, met with Embassy Econoff and the Director of USAID's Office of Energy and Environment on June 10. Khetaguri said that he is deeply concerned by reports published the week of June 2 that Gazprom is interested in purchasing Azeri gas. Khetaguri said that his understanding was that Gazprom had offered to buy all Azeri gas not already subject to contract for a price between USD 250 and USD 300 per thousand cubic meters. Khetaguri realizes that the offer is mainly aimed at closing the door on non-Russian sources of gas for Europe. He stressed the need for the Europeans to negotiate harder on securing Azeri supplies for Nabucco and TGI. However, he is equally as concerned that Gazprom's deep pockets may make it difficult for Georgia to obtain gas from Azerbaijan in the future. He fears it will be hard for the Azeris to say no to Gazprom's offer. Even if the Azeris do refuse to sell, Gazprom's offer may still increase the price of gas expected by the Azeris from Georgia.

¶2. (C) Regarding Georgia's current gas supplies, Khetaguri said that Georgia has an agreement with Azerbaijan to buy up to 600 million cubic meters of gas until the end of 2008 at USD 200 per tcm. It also has a promise from the Azeris that they will cover all of Georgia's demand in 2009 at a price still to be negotiated. With 300 million cm from Shah Deniz, 200 million cm from the North-South pipeline to Armenia, Georgia would like to obtain 1.3 bcm from Azerbaijan in 2009. Of the 1.3 bcm, 600 million cm is for power generation and 400 million cm for heating, with the rest needed by industry, which must buy its inputs on the open market. Khetaguri told us that Georgia has bought 500 million cm from Gazprom at a price of USD 280 per tcm so far in 2008. He is worried that the Gazprom offer may cause the Azeris to renege on their promise to supply Georgia's needs in 2009.

¶3. (U) USAID introduced Khetaguri to the chief of party of a new USAID project to support creation of energy policies that will guide the GOG for the foreseeable future, including those policies that affect regulation, export and import and transit. Khetaguri said that developing natural gas storage is now a top GOG priority.

¶4. (C) Khetaguri said that rehabilitation of the third of five generators at the Enguri power plant is continuing, and that three units will be fully operational by the end of ¶2008. The two other units are operating at reduced capacity but are slated for rehabilitation by 2010. The World Bank and EBRD are going to help finance renovation of the Vardnili cascade power plants below Enguri, Khetaguri said. The Enguri plant and the cascade are in Abkhaz territory, while the Enguri dam is in Georgia itself. Despite the recent upsurge in political tensions over Abkhazia, there has been no interference in the operation of the power plants, which supply both Georgia and Abkhazia with power -- in Abkhazia's case, all its electric power. The Abkhaz do not pay for the power they receive, and the retail cost of power in Abkhazia is still the same four kopeks per Kwh it was in Soviet days, according to Khetaguri. The Abkhaz know they need the

Georgians to operate the plant, Khetaguri said. Enguri is the only example of an area where there is real Abkhaz-Georgian cooperation, he added.

15. (C) Comment: We understand from Embassy Baku that the Gazprom offer to buy Azeri gas applies only to Shah Deniz phase II gas. Even so, the offer is likely to make Azeri gas more expensive for Georgia -- both from Shah Deniz phase II and from other Azeri sources. There is no doubt that Khetaguri will be watching closely to see whether the Gazprom offer shakes Azeri resolve to meet Georgia's 2009 needs fully.
TEFFT